

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-13 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 PA-01 PRS-01 DODE-00 EURE-00

/107 W

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P R 261801Z JUL 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 0706

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION USBERLIN

USMISSION NATO BRUSSELS

USNMR SHAPE

AMCONSUL FRANKFURT

AMCONSUL MUNICH

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL HAMBURG

AMCONSUL STUTTGART

CINC USAFE RAMSTEIN

CINC USAREUR HEIDELBERG

CINC EUR VAIHINGEN

AMEMBASSY TOKYO

USDEL MTN GENEVA

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DEPARTMENT PASS TREASURY, FRB AND CEA

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E.O. 11652: N/A

TAGS: EFIN, ECON, GW

SUBJECT: SOME MORE COMMENTS ON WAGES AND PROFITS

REF: BONN 12474

1. THE LAST SENTENCE OF THE SUMMARY CONTAINED REFTTEL SHOULD READ: "NOMINAL (NOT REAL) GROSS WAGES ARE PREDICTED TO BE UP 8 PERCENT FOR THE YEAR, BUT DID NOT INCREASE AT ALL IN THE FIRST QUARTER, REFLECTING THE SHIFT IN INCOME DISTRIBUTION CURRENTLY UNDERWAY."

2. IN THIS CONTEXT IT IS ALSO INSTRUCTIVE TO NOTE THAT IN THE NET, AFTER DEDUCTION FOR TAXES AND EMPLOYEE CONTRIBUTIONS TO THE VARIOUS SOCIAL SECURITY FUNDS, WAGES IN 1976 ARE FORECAST TO INCREASE BY ONLY 4 PERCENT, AND THIS IN NOMINAL TERMS. IF THE FORECASTED 5 PERCENT PRIVATE CONSUMPTION DEFLATOR IS ASSUMED AS VALID, THIS WOULD MEAN THAT IN REAL TERMS THE NET INCOME FROM WAGES FOR THE ECONOMY AS A WHOLE WILL DECLINE BY 1 PERCENT IN 1976.

3. CUSHIONING SOMEWHAT THE EFFECT OF THIS DEFLATIONARY DEVELOPMENT ON PRIVATE CONSUMPTION ARE THE RATHER LARGE TRANSFER PAYMENTS (UNEMPLOYMENT AND PENSION BENEFITS, USE OF CONSUMER CREDIT, ETC.) ASSUMED FOR 1976 IN THE FORECASTS. TAKING THIS FACTOR INTO ACCOUNT RESULTS IN A NOMINAL INCREASE IN DISPOSABLE INCOME OF 7 PERCENT, WHICH, WHEN REDUCED BY A 5 PERCENT DEFLATOR, EQUATES TO A 2 PERCENT REAL INCREASE.

4. SO FAR, IN THE FIRST QUARTER OF 1976, IN SEASONALLY ADJUSTED TERMS AND PER DIW, NET WAGES DECLINED NOMINALLY# BY 7.2 PERCENT AT AN ANNUAL RATE. THE 4.2 PERCENT PRIVATE CONSUMPTION DEFLATOR OF THE FIRST QUARTER WOULD THEREFORE SIGNIFY A REAL DECLINE OF 11.4 PERCENT (AT AN ANNUAL RATE) IN THE NET WAGES RECEIVED IN THE GERMAN ECONOMY. SINCE THE EMPLOYMENT TOTAL INCREASED IN SEASONALLY ADJUSTED TERMS IN THE FIRST QUARTER, THIS MEANS THE PER CAPITA REAL NET WAGE INCOME OF GERMANS DECLINED BY AN EVEN LARGER MARGIN. THE VERY WEAK PERFORMANCE LIMITED OFFICIAL USE

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OF PRIVATE CONSUMPTION IN THE FIRST QUARTER (ZERO GROWTH PER DIW) IS READILY UNDERSTANDABLE IN THE LIGHT OF THIS DEVELOPMENT.

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FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 0707

INFO AMEMBASSY LONDON

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5. THE FIRST QUARTER WAGE DECLINE IS, OF COURSE, A MACROECONOMIC ESTIMATE OF DEVELOPMENTS IN THE PERIOD ASSESSED. IT COVERS WAGES RECEIVED BY OVER 22 MILLION WORKERS IN THE TOTAL LABOR FORCE, OF WHICH ALL ARE NOT COVERED BY COLLECTIVE BARGAINING CONTRACTS. FACTORS WHICH CONTRIBUTED TO THE DECLINE IN WAGES IN THE FIRST QUARTER, AND WHICH TO A CERTAIN EXTENT ARE OF A ONE TIME NATURE INCLUDE: WAGE SETTLEMENTS WERE SOMEWHAT DELAYED THIS YEAR AND WERE NOT ENTIRELY REFLECTED IN THE FIRST QUARTER'S DATA, AND, THE RATE FOR EMPLOYEE CONTRIBUTIONS FOR OLD AGE, UNEMPLOYMENT AND HEALTH INSURANCE INCREASED AT THE TURN OF THE YEAR. AS A RESULT THE SECOND QUARTER DATA SHOULD BE MUCH MORE FAVORABLE, ESPECIALLY GIVEN THE LOW FIRST QUARTER BASE.

6. INCOME FROM BUSINESS AND CAPITAL, ACCORDING TO THE IFO INSTITUTE AND AS REPORTED REFTTEL, IS FORECAST TO RISE IN 1976 ON A GROSS BASIS BY 17.5 PERCENT IN NOMINAL TERMS (FIRST QUARTER ACTUAL: 30 PERCENT UP). ON A NET BASIS, HOWEVER, IT IS FORECAST TO INCREASE BY AN EVEN HIGHER 22.5 PERCENT. THIS IS DUE TO THE FACT THAT BUSINESS WILL RECEIVE INVESTMENT PREMIUM PAYMENTS FROM THE GOVERNMENT AND THAT THEIR TAX PAYMENTS ARE MADE WITH SOME DELAY. (TAXES PAID BY BUSINESS IN 1976 WILL BE FOR THE RELATIVELY LOW PROFIT YEARS OF 1974 AND 1975.) THEREFORE, THERE IS THE ANOMALY OF A HIGHER NET THAN GROSS FIGURE.
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